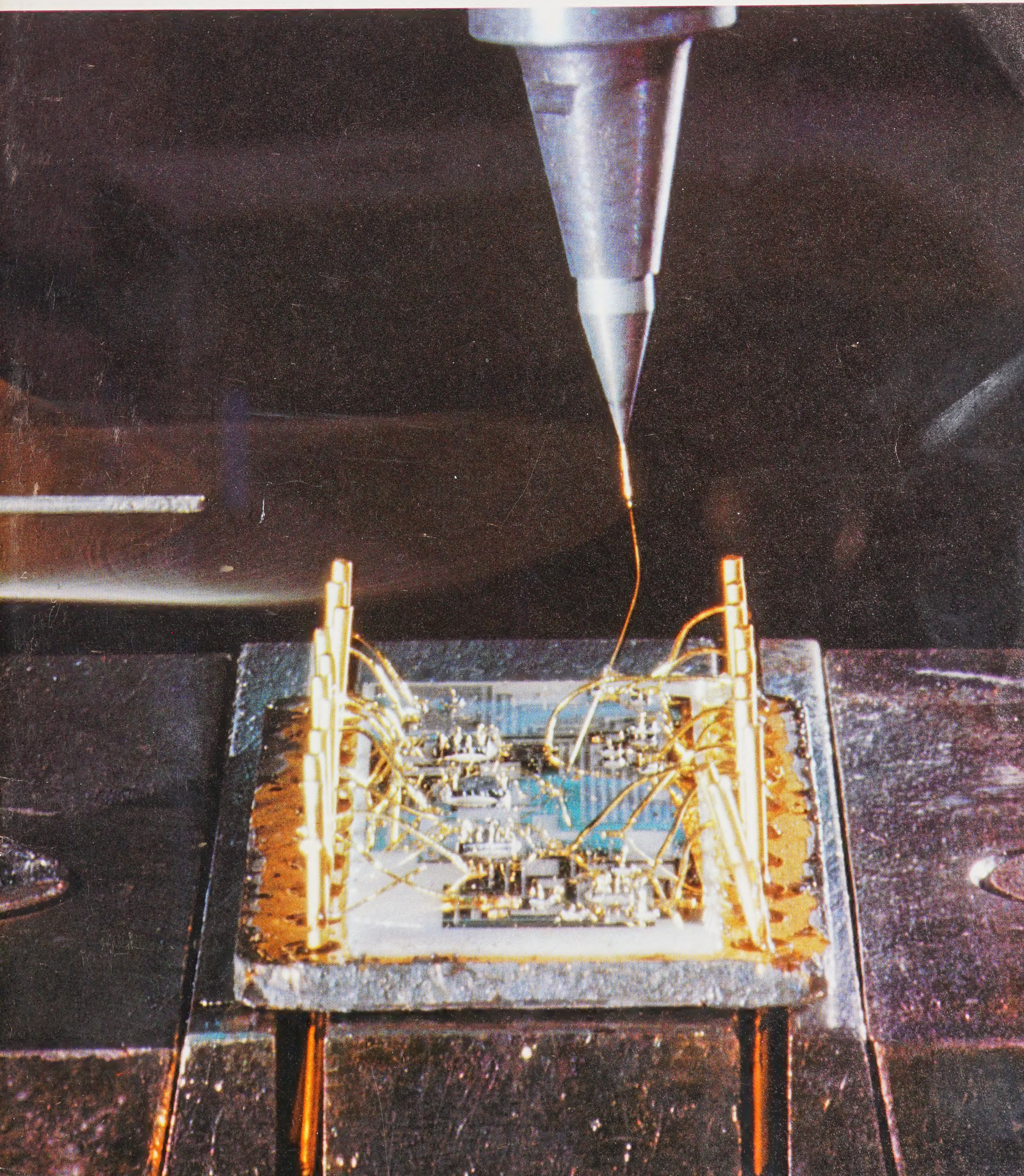
CANADIAN MARCONI COMPANY 66TH ANNUAL REPORT 1968

THE FIRST NAME IN RADIO-ELECTRONICS



CANADIAN MARCONI COMPANY

HEAD OFFICE AND PLANT: 2442 TRENTON AVENUE, MONTREAL 301, QUEBEC, CANADA

DIRECTORS

C. E. Bélanger, C.A.
Senior Partner — Bélanger, Saint-Jacques, Sirois, Comtois & Cie
Sherbrooke, Canada

J. A. Boyd
Vice-Chairman, Canadian Marconi Company
Toronto, Canada

L. M. Daley
President, Canadian Marconi Company
Montreal, Canada

S. M. Finlayson
Chairman and Chief Executive Officer, Canadian Marconi Company
Montreal, Canada

H. Hansard, Q.C.
Senior Partner, Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault
Montreal, Canada

The Hon. A. K-Hugessen, Q.C.
Counsel, Smith, Davis, Anglin, Laing, Weldon & Courtois
Montreal, Canada

H. J. Lang
Chairman and President, Canron Limited
Montreal, Canada

The Rt. Hon. Lord Nelson of Stafford
Chairman, The General Electric and English Electric Companies Limited
Chairman and Chief Executive, The English Electric Company Limited
London, England

J. G. Notman, O.B.E.
Director, Canadair Limited
Montreal, Canada

I. D. Sinclair, Q.C.
President, Canadian Pacific Railway Company
Montreal, Canada

R. Telford, C.B.E.
Managing Director, GEC — Marconi Electronics Limited
Managing Director, The Marconi Company Limited
London, England

OFFICERS

S. M. Finlayson
Chairman and Chief Executive Officer

L. M. Daley
President

R. R. Lanthier, C.A.
Vice President — Finance and Treasurer

N. Milroy, C.A.
Vice President and Comptroller

D. W. G. Martz
Vice President — Broadcasting Division

W. Baillie
Vice President — Commercial Products Division

J. A. Howlett
Vice President — Industrial Relations Division

H. A. Hamilton, Ph. D.
Vice President — Marine and Land Communications Division

R. Macleod
Vice President — Special Services Division

C. W. Perry
Secretary

E. D. Hickin
Assistant Treasurer

REGISTRAR

Montreal Trust Company
Montreal, Canada

TRANSFER AGENT

Canada Permanent Trust Company
625 Dorchester Blvd. West, Montreal, Canada

AUDITORS

Price Waterhouse & Co.
Montreal, Canada

BANKERS

Bank of Montreal
First National City Bank
Bank of America

COVER: *The thermo-compression wire bonding of a hybrid micro-circuit:*

The Annual General Meeting of Shareholders will be held at the Company's Head Office in the City of Montreal, 380 Aberdare Road entrance, on Monday morning, April 15th, 1969 at 11:00 o'clock.

Canadian Marconi Company is a subsidiary of The English Electric Company, Limited, which has recently merged with The General Electric Company Limited, of England, forming a world-wide organization employing 250,000 people and with annual sales between 2 and 3 billion dollars.

Pour obtenir un exemplaire en français de notre rapport annuel, veuillez écrire au secrétaire, Canadian Marconi Company, 2442 Trenton, Montréal 301, Qué., Canada

Financial Highlights

	1968	1967	1966	1965	1964
Sales and revenues	**$74,638,000**	$70,071,000	$61,578,000	$60,473,000	$54,128,000
Income from operations	**2,369,000**	8,951,000	10,999,000	9,835,000	8,141,000
Depreciation and amortization	**2,145,000**	2,540,000	2,483,000	1,939,000	1,434,000
Net income	**(4,299,000)**	26,000	1,631,000	2,236,000	2,023,000
Number of shares issued	**5,943,192**	5,943,192	5,402,902	5,402,902	4,554,682
Net income per share	**—**	—	.30	.41	.44
Dividends	**297,000**	594,000	540,000	810,000	569,000
Dividends per share	**.05**	.10	.10	.15	.12½
Shareholders' equity	**14,900,000**	18,818,000	17,406,000	17,016,000	12,770,000
Shareholders' equity per share	**2.50**	3.17	3.22	3.15	2.80
Working capital	**8,227,000**	13,112,000	8,808,000	12,819,000	7,624,000

Directors' Report to Shareholders

In the annual reports for 1967 and again at the half year in 1968 your Directors were led, by then apparent indications, to state that the expected results of the entire year 1968 would show some profit recovery and a substantial improvement over the Company's pre-tax profit for 1967. With 1968 sales again reaching an all time high of $74,000,000 and with a year-end backlog in excess of $40,000,000, it is evident that these expectations might have been realized had it not become necessary, in the latter half of the year, to set up substantial reserves in respect of certain defence contracts and had we not experienced a further loss in the operations of the Company's U.S. subsidiary Kaar. As will be seen from the accompanying financial statements, the result of these two factors produces a relatively heavy deficit rather than the hoped for profit position.

The loss in Kaar is disappointing and strenuous efforts are being made to reorganize and place this subsidiary on a proper footing.

Our Broadcasting operation, our Special Services Division and our Marine and Land Communications operations in Canada conformed closely to budgets. Our other defence activities, mainly in the field of radio relay equipment, conformed closely to estimate and were profitable.

Serious costing problems arose in the avionics section of the Commercial Products Division in connection with certain defence contracts. Our avionics business consists of a substantial number of individual contracts which may be grouped under three main headings.

1. Doppler and associated computer equipment for subsonic fixed wing aircraft.
2. Helicopter doppler and computer equipment of advanced design.
3. Doppler and computer equipment for supersonic aircraft such as the F-111D.

All of these groups represent advanced design. The first group being undertaken somewhat earlier and being closely related to proven equipment, has been running in sufficient volume to be profitable.

The second group, due to stringent specifications, has been until recently a source of many problems and has required design and production methods involving completely new technology. Cost experience to date reveals that our earlier estimates were much too low and that the reserves that we had taken against these contracts in earlier years were inadequate. An appropriate provision has been made for estimated losses to be incurred in the future on current work in process on this program. Toward the end of 1968 the technical problems were brought under control and the equipment is performing satisfactorily under service conditions. Additional contracts have been negotiated for these products at realistic prices.

With respect to the third group, and primarily the F-111D, we are confronted with similar problems. In this case we entered into a contract early in 1966 at prices which have proved to be inadequate. When the problems respecting this program began to appear, we immediately applied for price relief and it soon became clear that the problem that we faced was paralleled by that of other contractors on the same program. The specifications for this equipment are of the most rigorous character and our designers have succeeded in producing a product which performs well. The first production equipments of a run of 96 are scheduled for delivery to begin early in 1969.

As the nature of this problem unfolded we have maintained and intensified our efforts to obtain increases in the originally contracted prices and have filed a claim in an amount calculated to cover the deficit envisaged. We succeeded in negotiating realistic prices against further quantities on option under the contract and the first option of 144 units has been exercised subject to allocation of funds. Until such time as there is a determination of our claim, an appropriate reserve has been set up in our 1968 accounts.

This Company, in common with many others in the aeronautical fields, is going through a period where the requirements of the ultimate utilization force processes of design and manufacture wherein work must be carried on at the edge of known technology, while at the same time firm prices must also be provided one or more years in advance of the completion of design.

In these circumstances, while your Directors felt justified in declaring an iterim half-yearly dividend of five cents per share, no further dividend has been declared in relation to 1968 operations.

As indicated above, the Company's technical teams have successfully surmounted the challenging requirements of these programs. As a result the Company is now in the position of having first class avionics products, which it is confident will command a good share of the market at realistic prices.

During the year the operations of our International Division were merged partly into the Commercial Products Division and partly into the Marine and Land Communications Division. Dr. H. A. Hamilton, formerly Vice-President in charge of the International Division, was appointed Vice-President, Marine and Land Communications Division.

At mid-year, Mr. Neil Milroy, C.A., was appointed to the position of Vice-President and Comptroller.

To our great regret, Mr. S. B. Hayward, who had given outstanding service as Vice-President in charge of Broadcasting, died suddenly in July. The vacancy was filled by the promotion of Mr. Donald Martz, formerly Manager of our Television Station, to succeed Mr. Hayward.

The Directors wish to record their appreciation of the loyal and efficient services of the Company's employees.

On behalf of the Board of Directors,

Chairman and Chief Executive Officer.

Montreal, January 28, 1969.

Consolidated Statement of Income

YEAR ENDED DECEMBER 31, 1968

	1968	1967
Sales and revenues	**$74,638,000**	$70,071,000
Income from operations before the charges shown below (Notes 2 and 4)	**$ 2,369,323**	$ 8,951,072
Research and development (net of recoveries)	**3,103,028**	4,401,200
Depreciation (Note 5)	**2,145,337**	2,539,734
Interest (Note 6)	**1,960,276**	1,284,102
	7,208,641	8,225,036
Income (loss) before income taxes	**(4,839,318)**	726,036
Income taxes (Note 7)	**(540,000)**	700,000
Net income (loss)	**($ 4,299,318)**	$ 26,036

Consolidated Statement of Source and Application of Funds

YEAR ENDED DECEMBER 31, 1968

	1968	1967
Source of funds:		
Operations — Net income	$ —	$ 26,036
Add: Depreciation	**2,145,337**	2,539,734
Proceeds of sale of 7% unsecured sinking fund debentures, series B	—	3,412,500
Proceeds of issue of capital stock	—	2,161,160
Income tax provisions of prior years no longer required	**678,770**	—
Decrease in sundry assets	**68,813**	—
Decrease in working capital	**4,884,384**	—
	$7,777,304	$8,139,430
Application of funds:		
Net loss	**$4,299,318**	$ —
Additions to fixed assets (net)	**3,022,826**	2,695,110
Increase in sundry assets	—	352,926
Repayment of long-term debt	**158,000**	100,000
Expenses of issue of shares and debentures	—	93,952
Dividends	**297,160**	594,319
Increase in working capital	—	4,303,123
	$7,777,304	$8,139,430

Consolidated Balance Sheet

DECEMBER 31, 1968

ASSETS	1968	1967
Current assets:		
Cash	$ 313,607	$ 190,906
Accounts receivable	20,721,980	16,596,893
Inventories (Note 2)	14,362,688	16,967,154
Prepaid expenses	1,741,627	1,755,235
	37,139,902	35,510,188
Sundry assets:		
Deferred accounts receivable	327,724	472,925
Investments in and advances to associated companies, at cost less amounts written off	187,370	110,982
	515,094	583,907
Fixed assets:		
Land, buildings and equipment, at cost	28,495,785	26,683,153
Less: Accumulated depreciation	13,195,595	12,260,452
	15,300,190	14,422,701
	$52,955,186	$50,516,796

Approved on behalf of the Board:

L. M. Daley, Director

S. M. Finlayson, Director

LIABILITIES AND CAPITAL		1968	1967
Current liabilities:			
Bank loans and acceptances		$19,037,543	$11,815,570
Accounts payable and accrued liabilities		9,801,932	9,446,633
Accrued income taxes		—	998,807
Sales and excise taxes payable		73,263	137,630
		28,912,738	22,398,640
Long-term debt (Note 3):			
5¾% unsecured sinking fund debentures series A, due May 1, 1988		5,700,000	5,800,000
7% unsecured sinking fund debentures, series B, due June 1, 1989		3,442,000	3,500,000
		9,142,000	9,300,000
Capital:			
Capital stock —			
Authorized —			
7,500,000 shares of $1 each			
Issued —			
5,943,192 shares		5,943,192	5,943,192
Contributed surplus		4,272,403	4,272,403
Retained earnings		4,684,853	8,602,561
		14,900,448	18,818,156
Contingent liability:			
Notes and accounts receivable discounted	$3,167,000		
		$52,955,186	$50,516,796

Auditors' Report

To the Shareholders of Canadian Marconi Company:

We have examined the consolidated balance sheet of Canadian Marconi Company and subsidiary companies as at December 31, 1968 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in the basis of providing for depreciation as explained in Note 5 to the financial statements.

PRICE WATERHOUSE & CO.
Chartered Accountants

January 28, 1969

Consolidated Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1968

	1968	1967
Retained earnings, beginning of year	**$8,602,561**	$9,352,296
Add:		
Net income	—	26,036
Income tax provisions of prior years no longer required	**678,770**	—
	9,281,331	9,378,332
Deduct:		
Net loss	**4,299,318**	—
Discount ($87,500) and expenses on sale of 7% sinking fund debentures, series B	—	108,969
Expenses of issue of capital stock	—	72,483
Dividends — 5 cents per share (1967 — 10 cents)	**297,160**	594,319
	4,596,478	775,771
Retained earnings, end of year (Note 8)	**$4,684,853**	$8,602,561

Notes

To Consolidated Financial Statements December 31, 1968

Note 1 — PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Canadian Marconi Company and its subsidiary companies, all of which are wholly-owned. The only operating subsidiaries are Kaar Electronics Corporation and its subsidiary companies, which are engaged in the manufacture, sale and leasing of marine and land communications equipment in the United States. The accounts of these companies have been translated into Canadian dollars at the rate of Cdn. $1.08 to the U.S. dollar. This rate has not changed materially since inception of these companies.

Note 2 — INVENTORIES: Inventories may be summarized as follows:

	1968	1967
Contracts and other work in progress, at cost, less provision for anticipated losses	**$ 6,390,100**	$ 8,788,795
Raw materials, at cost, not in excess of market	**1,424,199**	1,313,163
Finished products, at lower of cost or net realizable market value	**6,548,389**	6,865,196
	$14,362,688	$16,967,154

Profits and losses on major long-term contracts, principally those over $100,000, are recorded on a stage of completion basis, based on the ratio of incurred costs to date to the projected total costs of completing the contracts. Provisions aggregating $2,800,000 have been made for anticipated losses on certain contracts. No reduction has been made in this provision for profits expected to be earned on other contracts.

The company has filed claims to recover its losses on one major contract. However, since the outcome cannot be forecast at this time, these claims are not reflected in the accompanying financial statements.

Note 3 — LONG-TERM DEBT: Sinking fund provisions of the series A and B debentures require annual payments aggregating $158,000 in 1969 and 1970, $208,000 in 1971 and $237,000 in 1972 and 1973. In 1968, debentures having a face value of $105,000 were purchased in partial satisfaction of the 1969 requirements; the balance of $53,000 is included in accounts payable and accrued liabilities.

Note 4 — DIRECTORS' REMUNERATION: Income from operations is stated after charging remuneration of directors and of officers who are directors — $109,673.

Note 5 — DEPRECIATION: In 1968 depreciation has been recorded on assets purchased during the year from the date of purchase only, whereas in prior years provision was made on such assets for the entire year. The rates of depreciation applied to certain assets were also revised in 1968. As a result of these changes, depreciation for 1968 is $334,000 less than it would have been on the basis formerly employed.

Note 6 — INTEREST: Interest expense includes $578,500 on long-term debt.

Note 7 — INCOME TAXES: In filing its tax returns for 1967, the company deducted from taxable income the amount of profits recorded on a progress basis but which are not taxable until realized on delivery of production. Taxes deferred by recognizing this timing difference between accounting and taxable income, amounting to $540,000 in 1967, have been restored to income in 1968 as a result of the loss incurred.

Note 8 — RESTRICTIONS UPON PAYMENT OF DIVIDENDS: The Trust Agreements relating to the series A and B debentures contain certain restrictions upon the payment of dividends. At December 31, 1968 no part of consolidated retained earnings was available for distribution.

BROADCASTING DIVISION

CFCF Television continued to dominate the television scene in Montreal in 1968, outrating all other English stations seen in the market. The station also is reaching out beyond its normal coverage area as community antenna systems expand. This is reflected by increased audiences in Quebec City and Ottawa, cities well outside the range of our television transmitter, where our signal is delivered to subscribers on these cable systems.

Production of television commercials for National advertisers in both Canada and the United States increased significantly in 1968 forcing expansion of studio facilities and the establishment of a Production Services Department to adequately serve this important area of our operation. In addition to production of commercials we originated ten half-hour programs per week for the CTV Television Network and produced a twenty-six episode series of musical variety shows for an independant producer.

Popularity of colour television continues to grow with Quebec Province ranking second in colour set sales of all Canadian Provinces. Our television plant is now completely colourized and all programs, with a few exceptions, are transmitted in colour.

Changes were made in CFCF-AM late in 1968 which we anticipate will further improve the station's popularity in the market in 1969. Programming was changed to place greater emphasis on attracting the adult radio listener throughout the entire broadcast schedule. The sound of CFCF-Radio is now fully classified as "Middle of the Road".

CFQR-FM gained significantly in popularity and the latest ratings of 1968 indicate the station has the greatest listenership of any FM station in Canada. Collectively, Montrealers spend 2.17 million hours per week listening to CFQR.

The rise of CFQR together with the strengthening of CFCF-AM and continued growth of CFCF-TV has made 1968 a very satisfactory year and provides the base for improved performance in 1969.

COMMERCIAL PRODUCTS DIVISION

The year has been a particularly active one for the Avionics Department. The demand for new products and interest in current and older designs strengthened noticeably as the year progressed.

Substantial follow-on orders were received for current Doppler velocity sensors and navigation equipments from the United States Department of Defence and the Coast Guard. At the same time revived demand for a Doppler designed some eight years ago has resulted in its being put back in production.

The F-111D Doppler will be standard equipment on the United States Air Force's new swing-wing fighter bomber. Development is nearing completion and deliveries will commence early in 1969. A large order was received through the Government of Canada to supply the Dutch Government with a Doppler system for their NF-5 fighter-bombers and trainers. Design of the equipment is nearly complete and production is scheduled. These latest supersonic Dopplers employ state-of-the-art solid state components.

Production of Doppler sensors is well underway for the Integrated Helicopter Avionics system and substantial orders have been received.

KLM has been able to realize economies by eliminating navigators on its transatlantic flights due to the accuracy and reliability of its CMC Doppler navigation system.

Promotion of an associated English company's products are being actively pursued in North America and appear to offer excellent future potential.

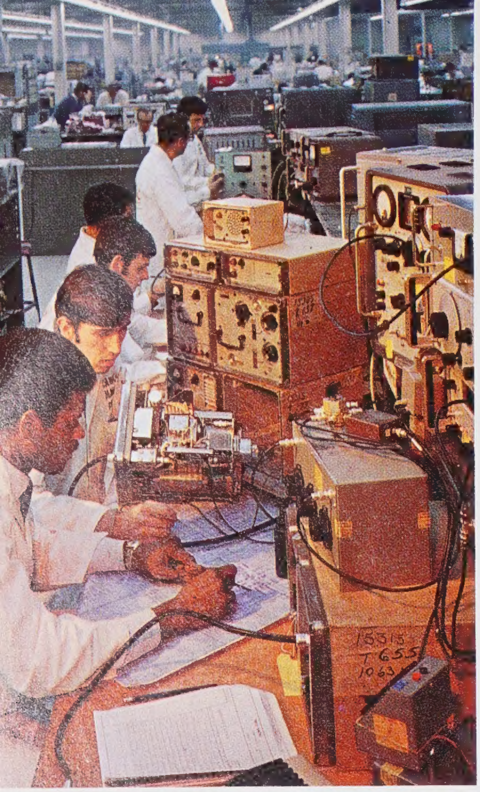
Although most sales volume is concentrated in the United States, potential markets elsewhere are being aggressively sought, as exemplified by our participation in this years Farnborough Air Show.

The challenges of 1967 became the rewards of 1968 as the Telecommunications Department continued to expand and to consolidate the careful groundwork and research which have made our tactical radio relay equipment the most advanced and sophisticated in the military field.

Large scale production of the standard equipment continued at an increasing rate, with 63,000 square feet of new production line being opened in August. Following development work which added further valuable capabilities to the system, pre-production models of variations of the basic production unit were tested and proved to meet the rigorous requirements of military customers. Further research is in an advanced stage which will enable the equipment to operate from wave-lengths of 400 cm down to 30 cm across the radio frequency spectrum.

The design and construction of the first models of the associated Test Facility were completed. This sophisticated equipment is used for depot maintenance, and is capable of completely analyzing the overall performance of the radio relay equipment, as well as fault-finding down to the sub-module level. Sales pros-

LEFT: *"Pulse" . . . CFCF-TV's, twice daily, hour-long news program. Seen here are Bert Cannings, Bill Haughland and Andrew Marquis who make up part of the 15-man, on camera, news team.* RIGHT: *A 30-inch comparator used in the detailed inspection of fine parts.*



pects of the system are excellent with several potential customers showing great interest, and contracts are already negotiated for the sale of the test facility in two countries.

The success of the radio relay equipment and its test facility has resulted in important growth in our advanced state-of-the-art manufacturing capabilities. Special parts production using precision castings, experimental work with precision variable capacitors, the use of miniature printed circuit boards and experience with micro-circuits have been some of the by-products which have enabled us to retain and expand our capability of matching the accelerating pace of technological advances.

INTERNATIONAL DIVISION

Latin America was extensively travelled and sales in this area were increased. The lead of the Telecommunications Authority of Colombia, in 1967, was taken up by the Colombian Army with the purchase of high frequency single sideband duplex radio-telephone terminals. New business was successfully negotiated with the Dominican Republic for a hybrid very high frequency/ultra high frequency radio-telephone system and Kaar's new ultra high frequency designs contributed heavily to the content. Our radar equipment is becoming popular with fishing companies in Peru, the world's leading fishmeal producer. As a result of the activities spearheaded there, during 1968, imminent increased sales are expected. Central America and the Carribean continue to provide outlets for our extensive product range.

Activities in Asian countries are parallel with the trend of the whole of the export market. Sales have increased substantially over the past year and new countries having been explored should bring in more business. The Hong Kong Port Authorities have selected CMC communication equipment to assist in the control of movement of ships in this extremely busy port. The CP24, the Company's new, 10 lb. portable, single sideband unit, has been successfully evaluated in the Malaysian jungle while the more powerful and corresponding CH25 is gaining a good name for itself wherever it is in operation.

UPPER: *Telecommunications Department, final test station in the assembly of tactical radio relay units.* MIDDLE: *Avionics Department acceptance test station for the F-111D Doppler navigation system.* LOWER: *The Company's new portable, single sideband radio-telephone successfully met the evaluation tests run by the Malaysian Department of Aborigines.*

These are strong indications that CMC products are well suited for export to Asia.

The Sale of commercial communication equipment to Africa, Europe and the middle-East has increased appreciably in the last three years, with the lion's share of sales shifting from England to Portugal, but a worthwhile volume was maintained with England. Other good markets were Kenya, Tanzania and Nigeria, where we were successful in securing new customers and repeat orders from present users. 1968 saw our first sales to newly tapped areas such as Denmark, France, Italy, Iraq, Lebanon, Libya, and Tunisia. This was most encouraging and indications are that our volume of business to these countries will be greater in the coming year.

MARINE & LAND COMMUNICATIONS DIVISION / KAAR ELECTRONICS CORPORATION

1968 saw MLCD increase its market share of the land mobile communication market in Canada. However, the improvement made in this product area was nullified by the Federal Government's drastic reduction in the shipbuilding subsidy. This seriously effected our marine sales volume during the year.

Our Instrument Department increased their sales volume by 16% over the previous year's business. In addition, their backlog of orders entering 1969 is the highest in the department's history thanks in some measure to an order received from the Department of Transport for one hundred and twenty-seven signal generators worth $380,000.

Of the many interesting and comprehensive communications systems which were sold and installed in 1968 the following are representative:—

The J. D. Irving enterprises in New Brunswick took delivery of a single sideband (SSB) system which links their offices and their many tugs and oil tankers plying the waters off the East Coast.

McAllister Towing, New York City through our Kaar organization equipped their terminal and fifteen vessels operating out of New York with our CH25 SSB units.

American Commercial Lines of Jeffersonville, Ind., one of the major carriers on the Inland Waterways, installed thirty-four CH25's on their towboats.

W. R. Grace Lines purchased, through our New Orleans office, LN55 voyageur transistorized radars and

SSB equipment for their shrimp fishing fleet operating off the coast of South America.

Out in British Columbia, over one hundred VHF-FM mobile units were supplied to Colombia Cellulose for their many logging operations in that Province.

Progress was made in strengthening our sales and service coverage in the United States with the appointment of sales agents in several areas where we had not previously been represented. We now have representation in North Texas, Oklahoma and Arkansas through The E. L. Wilks Co., while Marketing Associates now give us coverage in Iowa, Nebraska, Kansas and the Dakotas.

In Canada, London, Ont. was chosen as the location for a sales and service office to meet the growing needs of that area. In recognition of the growing importance of New Brunswick, a resident sales representative was added to the Saint John office. While in Quebec a sales and service van went into operation in the Lake St. John area. Out West, the sales and administrative headquarters for our mid-west area (Manitoba, Saskatchewan and Alberta) was transferred to Edmonton because of the growing activity in that center.

Two new products were introduced late in the year, both of which should make significant contributions to our sales volume and profit in the coming year. The CP24, a 10 watt solid state portable single sideband unit was well received by forestry and oil exploration officials. The LN66 Seafarer, a high definition, transistorized marine radar became available in December and will complement our existing models thus enabling us to offer greater choice to our prospects.

SPECIAL SERVICES DIVISION

Special Services Division performed close to expectations. Operation, maintenance, repair, and overhaul of electronics equipment and systems continued with some increase in volume of work. Several smaller installation and servicing contracts were obtained and a number of quotations for new work are still outstanding.

The scope of work on the operation and maintenance of defence communication facilities in Labrador and Newfoundland was increased by an extension of the requirement for supporting services at three additional sites. This involves operation and maintenance of power and heating systems and the maintenance of buildings and grounds. These functions, formerly performed by the United States Air Force, were on request, taken over a month ahead of schedule.

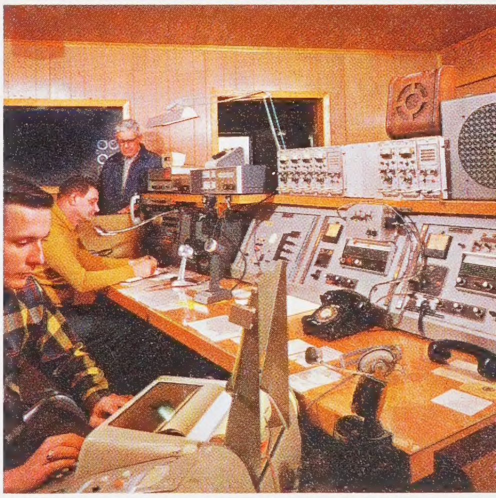
The main depot in St. John's, Newfoundland, which provides backup support for the Labrador sites was little affected by the field changes. The volume of work for field and depot overhauls remained steady. The supply Section, took over, from the military, the task of resupply of replacement parts and materials to the remote sites together with the responsibility for accounting for all the installed equipment.

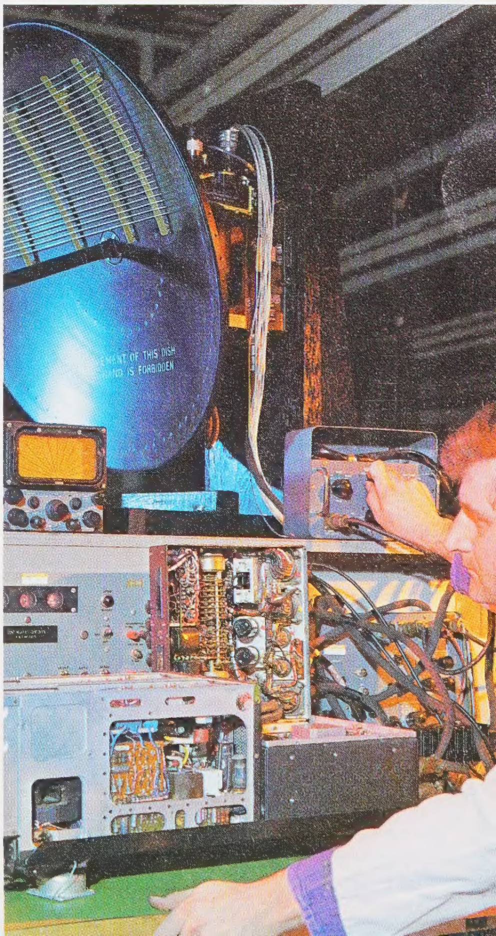
At Montreal Headquarters the repair and overhaul of heavy ground radars operated with a slightly reduced workload as anticipated. This was offset somewhat by undertaking several small servicing contracts as additional loading. The volume of work for repair and overhaul of airborne communications equipment, was maintained at the predicted level. However, loading was enhanced considerably by the acquisition of new work for modification of electronic counter measures equipment together with a small amount of weather radar.

In the installation field, the volume of available work was comparatively small, however, the Division obtained its share. Two contracts were completed for the United States Navy, one for the installation of conical transmitting antennas, and the other for the refurbishment of steel radio towers. A contract for installation of high frequency antennas is in hand and scheduled for future work.

The Test Equipment Calibration and Repair Section lost some of its loading for the supply of technical services. This was partly offset by the acquisition of smaller contracts from the Royal Canadian Air Force, calling for the supply of test equipment technicians and additional repair and calibration work.

During the year, the Division explored sources of new business in the maintenance and repair fields. A number of bids, were submitted to agencies both in Canada and United States, with results that have been encouraging to date. This new business coupled with the anticipated renewal of major contracts will provide for the continuing steady performance of the Division.





UPPER: *The DT87, one in a series of new mobile radio-telephones.* MIDDLE: *The radio room of Warner & Tamble's Public Coast Station, WJG, Memphis.* LOWER: *An airborne weather radar unit being repaired at the Special Services Division R & O Depot, Montreal.*

CANADIAN MARCONI COMPANY
group of companies

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PRODUCTS AND SERVICES

Broadcasting Division

Television and Radio broadcasting of entertainment, education and information over CFCF-TV, Channel 12, CFCF-AM (600 kc.), CFQR-FM (92.5 mc.), CFCX-SW (6005 kc.), Montreal. Producers of programs. Producers of commercials.

Commercial Products Division

Airborne Doppler sensors for fixed and rotary wing aircraft. Airborne computers and indicators for navigational and tactical use. Altimeters. High frequency transmitters and receivers, including single sideband systems. Tactical radio relay equipment. Repair and overhaul facilities for all products. System engineering of navigation and communications systems.

International Division

Marketing of the Company's commercial communications and military tactical communications equipments outside of North America. Representing the Marconi Group of Companies of the United Kingdom in Canada and in some instances the United States with products such as high performance commercial Broadcasting equipment, major military and commercial integretated communication systems, complex computers, automated control systems, high performance radars, modern components and instruments.

Marine & Land Communications Division

High frequency AM and single sideband and very high frequency FM radiotelephone equipment. Selective and tone calling units. Television transmitters, cameras and associated apparatus. Direction finders. Echo sounders. Fish finders. Loran. Marine radar. Precision electronic test instruments and industrial control systems.

Special Services Division

Repair and Overhaul of large fixed radar systems, communications and air navigation equipment and systems, from three depots in Montreal and St. John's, Nfld. Installation, maintenance and operation of commercial and defence communications systems including diesel engine power generation. Test equipment repair and calibration service.

CANADIAN MARCONI COMPANY
2442 TRENTON AVENUE, MONTREAL 16, P.Q.
and its wholly owned subsidiary

KAAR ELECTRONICS CORPORATION
232 WESCOTT DRIVE, RAHWAY, N.J. 07065

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INTERIM REPORT

FIRST HALF 1968

file

CANADIAN MARCONI COMPANY

THE FIRST NAME IN RADIO-ELECTRONICS

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CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

	FOR THE SIX MONTHS ENDED JUNE 30* 1968	1967
SALES AND REVENUES	$36,288,900	$32,128,000
Income from Operations before undernoted items	$ 3,787,602	$ 3,320,487
Less: Research and development	1,779,667	2,218,917
Depreciation	1,206,389	1,313,637
Income taxes	876,140	582,125
NET LOSS	$ 74,594	$ 794,192

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1968	1967
SOURCE OF FUNDS:		
Depreciation	$ 1,206,389	$ 1,313,637
Proceeds of issue of common shares	—	2,161,160
Proceeds of issue of debentures, Series B	—	3,412,500
	$ 1,206,389	$ 6,887,297
APPLICATION OF FUNDS:		
Net loss	$ 74,594	$ 794,192
Dividends	297,160	297,160
Additions to fixed assets (net)	779,290	1,088,338
Increase in working capital	55,345	4,707,607
	$ 1,206,389	$ 6,887,297

*Unaudited Interim Report

TO THE SHAREHOLDERS

Both sales volume and net operating results during the first half of 1968 were substantially improved over the first six months of 1967. Sales volume increased by over 12% and the net loss from operations was reduced to $74,594 from $794,192 shown in 1967. The backlog of business at June 30, 1968 was some fifty percent greater than at June 30, 1967.

An anticipated increase in sales volume during the last half of this year is expected to result in a substantial improvement in your Company's pre-tax profit over 1967.

Research and development expenditures during the first six months of 1968 were in excess of the corresponding figure for 1967, but increased recoveries of these expenditures from customers has resulted in a decrease in the net cost to your Company.

Some sixty thousand square feet of production space was added to the facilities in our main plant during July in order to accommodate the Company's projected increased volume.

A semi-annual dividend of five cents per share was paid on June 28, 1968 to shareholders of record June 7, 1968.

On behalf of the Board of Directors

Stuart Finlayson

Chairman and Chief Executive Officer

Montreal, Quebec
July 29, 1968